

THE AMERICAN ECONOMIC ASSOCIATION

FINANCIAL STATEMENTS

December 31, 2010 and 2009

THE AMERICAN ECONOMIC ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Executive Committee of
The American Economic Association
Nashville, Tennessee

We have audited the accompanying statements of financial position of The American Economic Association (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The American Economic Association as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean + Howard, PLLC

March 10, 2011

**THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009**

	2010	2009
Assets		
Cash and cash equivalents	\$ 1,458,188	\$ 1,770,352
Accounts receivable	1,472,049	1,477,420
Prepaid expenses	119,448	65,622
Investments	20,785,237	17,633,420
Furniture, fixtures and equipment, net of accumulated depreciation and amortization of \$734,172 and \$718,275, respectively	14,854	30,751
Total assets	\$ 23,849,776	\$ 20,977,565
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 987,618	\$ 1,059,539
Deferred revenue	2,550,022	2,844,549
Total liabilities	3,537,640	3,904,088
Net assets:		
Unrestricted	20,134,760	16,880,521
Temporarily restricted	177,376	192,956
Total net assets	20,312,136	17,073,477
Total liabilities and net assets	\$ 23,849,776	\$ 20,977,565

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES AND OTHER
CHANGES IN UNRESTRICTED NET ASSETS
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted operating revenues:		
License fees	\$ 3,569,278	\$ 3,345,355
Nonmember subscriptions	1,917,085	1,825,464
Membership dues	1,432,282	1,423,236
<i>Job Openings for Economists</i> listing fees	822,791	738,400
Fulltext, copyright and other fees	321,250	260,022
Submission fees	184,850	155,850
Advertising	134,437	124,685
Other	43,769	51,874
Continuing education fees	34,380	27,725
Annual meeting (net of associated costs of \$930,973 and \$978,715, respectively)	32,734	91,030
Sale of mailing list	24,124	36,325
Total unrestricted operating revenues	<u>8,516,980</u>	<u>8,079,966</u>
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>77,390</u>	<u>186,895</u>
Total unrestricted operating revenues and support	<u>8,594,370</u>	<u>8,266,861</u>
Operating expenses:		
Publication:		
<i>American Economic Review</i>	1,724,343	1,633,407
<i>Journal of Economic Literature</i>	899,089	920,516
<i>Journal of Economic Perspectives</i>	785,468	830,567
<i>AEJ: Applied Economics</i>	437,485	494,538
<i>AEJ: Economic Policy</i>	397,302	390,821
<i>AEJ: Macroeconomics</i>	397,636	407,028
<i>AEJ: Microeconomics</i>	404,037	396,231
<i>EconLit</i>	791,660	893,410
<i>Job Openings for Economists</i>	135,971	137,279
<i>Resources for Economists</i>	37,155	51,399
	<u>6,010,146</u>	<u>6,155,196</u>
Management and general:		
General and administrative:		
Salaries and benefits	726,972	581,093
Other	484,904	504,184
Support of other organizations	78,553	76,915
Rent	60,481	56,663
Committees	162,662	170,284
Continuing education program	96,533	132,831
Washington representation	94,740	28,929
Summer program	94,682	184,163
Unrelated business income tax	37,536	9,936
	<u>1,837,063</u>	<u>1,744,998</u>
Total publication, management and general expenses	<u>7,847,209</u>	<u>7,900,194</u>
Program expenses	<u>77,390</u>	<u>186,895</u>
Total unrestricted operating expenses	<u>7,924,599</u>	<u>8,087,089</u>
Increase in unrestricted net assets from operations	669,771	179,772
Investment income	<u>2,584,468</u>	<u>3,630,224</u>
Increase in unrestricted net assets	<u>\$ 3,254,239</u>	<u>\$ 3,809,996</u>

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Unrestricted net assets:		
Total unrestricted operating revenues	\$ 8,516,980	\$ 8,079,966
Net assets released from restrictions	77,390	186,895
Total unrestricted operating expenses	(7,924,599)	(8,087,089)
Investment income	<u>2,584,468</u>	<u>3,630,224</u>
Increase in unrestricted net assets	<u>3,254,239</u>	<u>3,809,996</u>
Temporarily restricted net assets:		
Grant proceeds	61,810	140,228
Net assets released from restrictions	<u>(77,390)</u>	<u>(186,895)</u>
Decrease in temporarily restricted net assets	<u>(15,580)</u>	<u>(46,667)</u>
Increase in net assets	3,238,659	3,763,329
Net assets - beginning of year	<u>17,073,477</u>	<u>13,310,148</u>
Net assets - end of year	<u><u>\$ 20,312,136</u></u>	<u><u>\$ 17,073,477</u></u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flow from operating activities:		
Change in net assets	\$ 3,238,659	\$ 3,763,329
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,897	28,625
Unrealized and realized investment gains	(2,022,591)	(3,223,711)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	5,371	(26,494)
(Increase) decrease in prepaid expenses	(53,826)	12,244
Decrease in accounts payable and accrued liabilities	(71,921)	(234,953)
(Decrease) increase in deferred revenue	(294,527)	312,081
Net cash provided by operating activities	817,062	631,121
Cash flows from investing activities:		
Purchases of investments, net	(2,529,226)	(2,800,150)
Proceeds from sale of investments	1,400,000	-
Net cash used in investing activities	(1,129,226)	(2,800,150)
Net decrease in cash and cash equivalents	(312,164)	(2,169,029)
Cash and cash equivalents - beginning of year	1,770,352	3,939,381
Cash and cash equivalents - end of year	\$ 1,458,188	\$ 1,770,352
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 14,089	\$ 11,574

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The American Economic Association (the “Association”) is an educational organization whose purpose is to encourage economic research, especially the historical and statistical study of the actual conditions of industrial life, to issue publications on economic subjects and to encourage freedom of economic discussion.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”). Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of changes in net assets as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased.

Investments

Investments are reported at fair value as reported by the respective funds using quoted market prices.

Accounts Receivable

The Association accounts for potential losses in accounts receivable utilizing the allowance method. Management believes that accounts receivable are fully collectible at December 31, 2010 and 2009. As a result, no allowance for uncollectible accounts has been provided.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment is stated at cost net of accumulated depreciation. Expenditures for ordinary maintenance and repairs are charged to expense. Renewals and betterments that materially extend the life of assets are capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Depreciation expense for the years ended December 31, 2010 and 2009 amounted to \$15,897 and \$28,625, respectively.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets represent amounts available for various research programs and economic conferences.

Revenue Recognition

Membership dues are recognized as operating revenue over the life of the membership. Nonmember subscriptions to the various periodicals of the Association are recognized over the term of the subscriptions. License fees are recognized as operating revenue as users obtain access to the online service. Listing fees and advertising revenues are recognized when the related publication is published or made available online. Sales of mailing lists, back issues, and reprints are recognized when the related material is shipped to the customer. Full text, copyright and other related fees are recognized when received.

An annual convention is held in January of each year by the Association under the name Allied Social Science Associations. Revenues and expenses of the meeting are audited. Revenues, net of expenses disclosed parenthetically, are reported in the unrestricted operating revenue section of the accompanying financial statements. Net revenues recognized in 2010 pertain to the January 2010 meeting.

Deferred Revenue

Deferred revenue represents income from membership dues and nonmember subscriptions to the various periodicals of the Association, which are deferred when received and amortized over the terms of the memberships.

Shipping and Handling Costs

It is the Association's policy to classify shipping and handling costs as a part of operating expenses in the line items to which they relate. Total shipping and handling costs were approximately \$554,750 and \$727,134 for the years ended December 31, 2010 and 2009, respectively.

Income Taxes

The Association files its federal income tax return as an educational organization substantially exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Association is subject to federal and state income taxes on certain revenues, which are not substantially related to its tax-exempt purpose. This "unrelated business income" includes income from advertising. The Association has recorded expenses of \$37,536 and \$9,936 in 2010 and 2009, respectively, in federal and state income taxes on unrelated business income. The Association has been determined to be an organization which is not a private foundation.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

On January 1, 2009, the Association adopted FASB ASC guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. This interpretation must be applied to all existing tax positions upon initial adoption. Tax years that remain open for examination include years ended December 31, 2007 through December 31, 2010. The Association has no tax penalties or interest reported in the accompanying financial statements. Adoption of this pronouncement had no impact on the Association's financial statements.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Subsequent Events

The Association evaluated subsequent events through March 10, 2011, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the accompanying financial statements.

Recent Accounting Pronouncements

Changes to accounting principles generally accepted in the United States of America are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates ("ASU's") to the FASB ASC. The Association considers the applicability and impact of all ASU's. ASU's not listed were assessed and determined to be either not applicable or are expected to have minimal impact on the Association's unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets or cash flows.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 2 – INVESTMENTS AND INVESTMENT INCOME

Fair value of assets is measured as required by the Fair Value Measurements and Disclosures Topic of the FASB ASC, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.
- Level 2 Inputs to the valuation methodology include the following:
- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Association's mutual funds are valued at the net asset values of shares held by the Association at year end. The certificates of deposit are valued at cost which approximates fair value.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 2 – INVESTMENTS AND INVESTMENT INCOME (Continued)

The following table sets forth by level, within the fair value hierarchy, the Association's investments at fair value as of December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Large blend	\$ 7,613,601	\$ -	\$ -	\$ 7,613,601
Foreign large blend	4,513,297	-	-	4,513,297
Intermediate-term bond	3,341,719	-	-	3,341,719
Long-term bond	2,183,065	-	-	2,183,065
Diversified emerging markets	1,094,495	-	-	1,094,495
Small blend	1,026,145	-	-	1,026,145
Mid-cap blend	<u>1,012,915</u>	<u>-</u>	<u>-</u>	<u>1,012,915</u>
Total investments at fair value	<u>\$ 20,785,237</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,785,237</u>

The following table sets forth by level, within the fair value hierarchy, the Association's investments at fair value as of December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 17,133,420	\$ -	\$ -	\$ 17,133,420
Certificates of deposits	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Total assets at fair value	<u>\$ 17,633,420</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,633,420</u>

Investment income (loss) consists of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Dividends and interest	\$ 561,877	\$ 406,513
Realized and unrealized gain (loss), net	<u>2,022,591</u>	<u>3,223,711</u>
	<u>\$ 2,584,468</u>	<u>\$ 3,630,224</u>

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 3 – COMMITMENTS

The Association leases office space under cancelable and noncancelable operating leases. The Association indemnifies the lessor under one of these leases for claims, losses and other liabilities arising from the conduct of the Association or its agents. Rental expense under these leases, which is included in various categories of operating expenses, totaled approximately \$263,155 and \$257,668 during the years ended December 31, 2010 and 2009, respectively.

The minimum future rental commitments under noncancelable operating leases at December 31, 2010 are as follows:

Years ending <u>December 31,</u>	
2011	\$ 266,006
2012	268,937
2013	<u>145,679</u>
	<u>\$ 680,622</u>

The Association also has contracts for hotel rooms and facilities for various meetings through 2018, although the majority of these contracts do not contain attrition clauses.

NOTE 4 – LICENSE FEES AND OTHER UNRESTRICTED OPERATING REVENUES

License fees consist of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Ebsco	\$ 2,812,454	\$ 2,422,748
Cambridge Scientific Abstracts	416,205	381,023
Ovid	270,989	344,680
OCLC	51,296	153,294
Dialog	11,830	16,985
Other	<u>6,504</u>	<u>26,625</u>
	<u>\$ 3,569,278</u>	<u>\$ 3,345,355</u>

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 4 – LICENSE FEES AND OTHER UNRESTRICTED OPERATING REVENUES
(Continued)

Other unrestricted operating revenues consist of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Sales of reprints and copies	\$ 18,605	\$ 15,315
CSWEP	9,645	25,200
Other	7,815	1,996
Calendar sales	<u>7,704</u>	<u>9,363</u>
	<u>\$ 43,769</u>	<u>\$ 51,874</u>

NOTE 5 – OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Other general and administrative expenses consist of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Database Management	\$ 128,646	\$ 89,364
Bank and credit card charges	124,044	133,857
Accounting and legal	47,261	62,271
Miscellaneous	39,483	36,530
Website and minor equipment	39,240	8,121
Mailing list file maintenance	21,059	32,789
Insurance	18,698	33,624
Election expenses	17,673	18,255
Postage and shipping	14,964	8,564
Telephone	12,165	15,897
Office supplies	11,913	11,736
Calendar expenses	9,758	50,699
Depreciation	<u>-</u>	<u>2,477</u>
	<u>\$ 484,904</u>	<u>\$ 504,184</u>

NOTE 6 – RETIREMENT ANNUITY PLAN

Employees of the Association are eligible for participation in a defined contribution retirement annuity plan. Contributions by the Association and participating employees are based on the employees' compensation. Benefit payments are based on the amounts accumulated from such contributions. Plan expense totaled approximately \$257,411 and \$249,170 for the years ended December 31, 2010 and 2009, respectively.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 7 – CONCENTRATIONS

The Association maintains deposit accounts with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. At December 31, 2010, uninsured deposit account balances of the Association amounted to \$953,370.

The Association also maintains cash in money market funds in the amount of \$473,901 at December 31, 2010 and \$473,847 at December 31, 2009. The money market funds were not insured at December 31, 2010 or 2009.

At December 31, 2010 and 2009, investments in various mutual funds were managed by one brokerage and investment company with an account balance totaling \$20,785,237 and \$17,133,420, respectively. Investments are not insured by FDIC or any other government agency and are subject to investment risk, including loss of principal. However, investments are insured by the Securities and Investor Protection Corporation, which covers investor losses, in some cases, attributable to bankruptcy or fraudulent practices of brokerage firms.

At December 31, 2010, accounts receivable from one company who has an agreement with the Association to sell *EconLit* represented approximately 67% of total accounts receivable. At December 31, 2009, accounts receivable from three companies who have an agreement with the Association to sell *EconLit* represented approximately 82% of total accounts receivable.